MULTIMEDIA UNIVERSITY STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BBF3624 – CREDIT MANAGEMENT

(All sections / Groups)

24 OCTOBER 2018
9 a.m. – 12 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 3 pages with 4 Questions only.
2. Attempt **ALL** questions. Distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a) CAMPARI approach is an alternative to the 5C's model used in the credit evaluation process. Explain its meaning in assessing the loan application of a small business borrower.

(14 marks)

b) Assume you are a credit officer of MoneyQo Bank, and you are provided the following financial statements of BTS Industries Berhad. The number of shares outstanding and market price per share of BTS Industries are 8000 shares and RM1.50, respectively. Based on the Altman's Z score, would you lend to the firm?

BTS Industries
Balance Sheets at the End of Year 2018

Cash	RM 9,000
Account receivable	12,500
Inventories	29,000
Total current assets	50,500
Land	20,000
Buildings and equipment	70,000
Less: Accumulated depreciation	28,000
Total fixed assets	62,000
Total Assets	**112,500**
Account payable	10,500
Bank notes	17,000
Total current liabilities	27,500
Long-term debt	28,750
Common stock	31,500
Retained earnings	24,750
Total Liabilities & Common Equities	**112,500**

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BTS Industries

Income statement for the year ended December 31, 2018

Sales	RM125,000
Cost of goods sold	75,000
Gross profit	50,000
Operating expense:	
Fixed cash operating expense	21,000
Variable operating expense	12,500
Depreciation	4,500
Total operating expense	38,000
Earnings before interest and taxes	12,000
Interest	3,000
Earnings before taxes	9,000
Taxes	4,500
Net income	**4,500**

(11 marks)

(Total: 25 marks)

QUESTION 2

a) Project financing is a type of loan structure that a company used to fund major industrial projects. Describe the SEVEN (7) characteristics of project financing suggested by Bruce et al. (1997).

(14 marks)

b) Describe letters of credit, transferable documentary credit, red clause credit that are commonly made available for international trades.

(11 marks)

(Total: 25 marks)

QUESTION 3

a) Describe how are the CreditPortfolio View and CreditRisk+ used to predict the default probability. What is the strength and weakness of CreditRisk+ in modeling the chances of non-payment by borrowers?

(10 marks)

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b) Suppose Dream Tree Bank is considering whether to grant Red Velvet Entertainment a corporate loan of RM5 million with a duration of 5 years. The change in the yield spread between corporate bonds of the same rating class and 10-year treasury bonds over the past year is 1.3%. The current level of interest rate is 3.25%. The interest rate spread is 0.2% and the various fees are amounted to 0.1% of the loan.

(i) Calculate the capital at risk (ΔL).

(5 marks)

(ii) Compute the risk adjusted return on capital (RAROC). If the bank has weighted average cost of capital of 6%, should the loan be approved?

(7 marks)

(iii) Define capital at risk.

(3 marks)

(Total: 25 marks)

QUESTION 4

a) Setting the loan rate too high may create market disequilibrium and lead to moral hazard and adverse selection problem. Explain how these two problems reduce the quality of loans.

(10 marks)

b) Pricing options are essential in formulating marketing strategies for a bank. Discuss the FIVE (5) strategies that can be employed by a financial institution in pricing banking products and services.

(15 marks)

(Total: 25 marks)

End of Paper